

Washington State Auditor's Office

Audit Report

**Central Puget Sound Regional Transit
Authority
(Sound Transit)**

King, Pierce and Snohomish Counties

Audit Period

January 1, 1998 through December 31, 1998

Report No. 60938

Issue Date
January 7, 2000



Washington _____

State Auditor

Brian Sonntag

Audit Summary

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

ABOUT THE AUDIT

This report contains the results of our independent audit of the Central Puget Sound Regional Transit Authority for the period January 1, 1998, through December 31, 1998.

We performed audit procedures to determine whether the Authority complied with state laws and regulations, its own policies and procedures, and federal grant requirements. We also audited the financial statements and evaluated the internal controls established by Authority management. Our work focused on specific areas that have potential for abuse or misuse of public resources.

RESULTS

The Authority complied with state laws and regulations, federal regulations, and its own policies and procedures in the areas we examined.

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Description of the Authority

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

ABOUT THE AUTHORITY

In 1992, the Washington State Legislature authorized King, Pierce and Snohomish counties to create a single agency to plan, build and operate a high-capacity transit system within the region's most heavily used travel corridors. During 1993, the Central Puget Sound Regional Transit Authority, acting under the service name Sound Transit, was established.

In 1996, the Authority and the voters adopted a 10-year regional transit system plan named Sound Move. This plan includes electric light-rail and commuter rail systems, regional express bus routes and a high-occupancy-vehicle expressway.

The Authority's Board and management have promised an aggressive timeline for implementing Sound Move. In 1998, the Authority began its transition from a planning to an operational agency by establishing regional bus routes linking Pierce and King counties. In addition, locomotives and passenger rail cars were procured for the heavy rail system and sites were secured for rail station locations and the Authority's administrative offices.

The Authority is supported primarily through sales taxes, state motor vehicle taxes, rental car taxes, passenger fares, bond proceeds, and grant funding from federal agencies. Total operating expenses have increased from approximately \$3.6 million in 1997 to \$7.2 million in 1998. The number of employees has increased 25 percent from 1997 to approximately 120 in 1998.

The Authority is governed by a board of 18 members, appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from that portion of each county, which lies within the Authority's service area.

ELECTED OFFICIALS

These officials served during the audit period:

Board Members:

Chair

Vice Chair

Vice Chair

Bob Drewel, Snohomish County Executive

Paul Miller, City of Tacoma Council Member

Greg Nickels, King County Council Member

Sara Casada, Pierce County Council Member
(resigned 7/98)

Ann Davis, City of Lakewood Council Member

Dave Earling, City of Edmonds Council Member

Mary Gates, City of Federal Way Council Member

Jane Hague, King County Council Member

Ed Hansen, City of Everett Mayor

Richard McIver, City of Seattle Council Member

Rob McKenna, King County Council Member

Sid Morisson, WSDOT Secretary

Dave Russell, City of Kirkland Council Member

Paul Schell, City of Seattle Mayor

Board Members (Continued):

Ron Sims, King County Executive
Cynthia Sullivan, King County Council Member
Doug Sutherland, Pierce County Executive
Jim White, City of Kent Mayor
Dave Enslow, Pierce County Council Member
(appointed 7/98)

Note: Paul Miller replaced Bob Drewel as Board Chair and Dave Earling replaced Paul Miller as Vice Chair in August 1998.

APPOINTED OFFICIALS

Executive Director
Deputy Executive Director
Finance Director

Robert White
Paul Matsuoka
Jan Hendrickson

ADDRESS

Authority

401 South Jackson Street
Seattle, WA 98104
(206) 398-5000

Audit Areas Examined

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

In keeping with general auditing practices, we do not examine every portion of the Authority's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the Authority were examined during this audit period:

LEGAL COMPLIANCE

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Open Public Meetings Act
- Contracts and bid law
- Travel and credit cards
- Pay-for-performance program
- Investments
- Board compensation
- Conflict of interest
- Purchase of Union Station
- Procurement of buses

INTERNAL CONTROL

We evaluated the following areas of the Authority's internal control structure:

- Receipts
- Disbursements
- Budget
- Relocation expenses
- Payroll
- Internet usage
- Petty cash

FINANCIAL AREAS

In addition to the financial-related work listed in other categories, we reviewed the work performed by the Authority's independent auditors, hired by the Authority to render an opinion on the Authority's financial statements. Those auditors rendered an unqualified opinion. Based on our review of their work and the financial related work we performed, we are also rendering an unqualified opinion.

FEDERAL PROGRAM

We evaluated internal controls and tested compliance with the following federal requirements, as applicable, for the Authority's major federal program, which is listed in the Federal Summary section of this report:

- Office of Management and Budget Circular A-87 (cost principles for state and local governments)
- Allowable costs
- Matching
- Reporting
- Procurement and suspension and debarment

Audit Overview

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

AUDIT HISTORY

We audit the Central Puget Sound Regional Transit Authority annually. This is the fifth audit since its formation in 1993. Management has been very responsive to prior audit recommendations. Audit concerns are often discussed, addressed and resolved before completion of our audit. Because of its assertive style of problem solving, the Authority has only had one audit finding in the last five audits.

CONCLUSIONS

In the areas examined, we found the Authority complied with state laws and regulations, its own policies and procedures, and requirements of federal financial assistance. We also found the Authority's financial statements were complete and accurate.

In May 1999, the Federal Transit Administration (FTA) performed an onsite procurement system review of the Authority. The review covered 30 contracts awarded by the Authority valued at approximately \$146,926,900 and 10 smaller purchases valued at approximately \$11,390. This review assessed the Authority's compliance with 46 FTA requirements. The FTA found the Authority in compliance with 37 of the requirements and not in compliance with nine. The principal findings of noncompliance related to the need to establish procedures and/or improve the documentation of independent cost estimates, brand name restrictions, sound and complete agreements, price and other factors, cost or price analysis, evaluation of options, written record of procurement history, and out of scope changes. Authority officials were extremely responsive in their corrective action plan, with immediate implementation of new policies and procedures to address the FTA concerns.

We thank Authority officials and personnel for their assistance and cooperation during the audit.

Federal Summary

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

The results of our audit of Sound Transit are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- We issued an unqualified opinion on the Authority's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the Authority.
- We issued an unqualified opinion on the Authority's compliance with requirements applicable to its major federal program.
- We reported no findings which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The Authority did not qualify as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

CFDA No.

Program Title

20.500

Federal Transit Capital Improvement Grant

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

Board
Sound Transit
Seattle, Washington

We have audited the financial statements of Sound Transit, King County, Washington, as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated August 6, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatements, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the Authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the Authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the Authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*.

However, we noted certain matters involving noncompliance not significant enough to report as findings that we have reported to management of the Authority in a separate letter dated August 6, 1999.

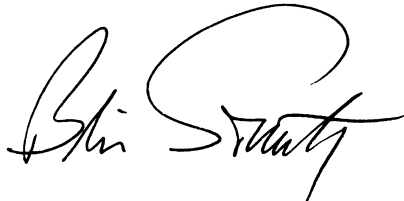
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated August 6, 1999.

This report is intended for the information of management, the Board, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized loop at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 6, 1999

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

Board
Sound Transit
Seattle, Washington

COMPLIANCE

We have audited the compliance of Sound Transit, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1998. The Authority's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

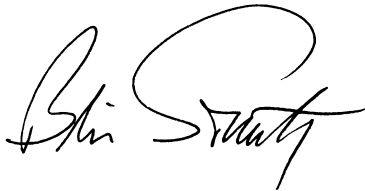
In our opinion, the Authority complied, in all material respects, with the requirement referred to above that are applicable to its major federal program for the year ended December 31, 1998.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized "S" at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 6, 1999

Independent Auditor's Report on Financial Statements

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

Board
Sound Transit
Seattle, Washington

We have audited the accompanying financial statements of Sound Transit, King County, Washington, as of and for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Transit as of December 31, 1998 and 1997, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

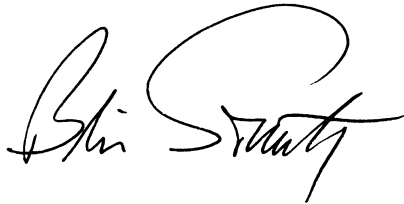
In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 1999, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The Year 2000 supplementary information on page 25 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures.

In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of the Federal Award is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the financial

statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized loop at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 6, 1999

Financial Statements

Sound Transit King, Pierce and Snohomish Counties January 1, 1998 through December 31, 1998

FINANCIAL STATEMENTS

Balance Sheets – 1998 and 1997
Statements of Revenues, Expenses, and Changes in Retained Earnings – 1998 and 1997
Statements of Cash Flows – 1998 and 1997
Notes to Financial Statements – 1998 and 1997

SUPPLEMENTARY INFORMATION

Required Supplementary Information – Year 2000 Issues

ADDITIONAL INFORMATION

Schedule of Expenditures of the Federal Award – 1998